

A trading plan is like a business plan. It should outline what you're trying to accomplish and how you are going to accomplish it. A trading strategy tells you when to enter and when to exit trades. A trading plan is more comprehensive than a trading strategy. Every trading plan is a little different, so there's not one template that will work for everyone, but many trading plans attempt to answer the following questions:

Slide 2/3 Trading Plan Questions (Plan should answer)

What is the underlying reason I trade? For some the reason we trade is the excitement and for others – it might be will be for the freedom to stay at home?

What Trading Vehicles do I use? What Timeframe do I Trade? Do you trade options, futures, stocks, mutual funds or only ETFs? Long or Short? Daily – Weekly?

Which Accounts Do I use for the Different Trading Instruments? Most of us have IRA's which have more limits on option trading

What is my Money Management Plan? Money Management need to will list the risk you are willing to take with each trade, which in turn will determine the position size. You may need a money management plan for the each type of trading instrument you trade.

What is my Trading Horizon and Strategy? Trading Horizon and Strategies tend to go together -- Day traders have a different set of strategies from Trend, or Momentum traders -- with the associated entry and exit rules... the Watchlist criteria are part of the strategy

What Kind of Recordkeeping? -- Do you keep all your trades on a spreadsheet or do you let you broker keep your records for you? What kind of profit/loss records do you keep? How do you determine your win/loss ratio? What do you need to keep for tax purposes? Consider a trading journal if you don't have one....

What is my Daily routine? – Morning/Trading Day/Nightly -- Do you take note of the overnight futures action? What news sources do you read? What economic reports are due today that could affect trading? Are there any stops that need to be adjusted? Are there any entries that need to be setup for tomorrow? How often is the watch list updated?

What are my income/profit targets? – are you meeting your daily, weekly goals for income or account growth...which leads to....

What are the circumstances to change the plan? Let's say you have specific rules on entry and exit and you find a service that looks pretty good. Do you just trade it and see how it works? Nope, you need to write down how you test this strategy to see if it is really as good as you think it will be - before you put any money on the line. What if you are not reaching your goals? What changes or modifications to the business plan need to be done?

Contingency or Disaster Planning? --What do you do if your computer crashes? What do you do if your ISP (or Broker's) site is down? What do you do if you have a power outage?

Slide 4-10 Trading Plan (EXAMPLE – not tested)

Your trading plan doesn't have to be complicated. However, it should allow you to manage and track these key items.

Example of Sample Trading Plan Elements:

1. Definition of Success
2. Watch List Criteria
3. Entry Rules (of the Strategies)
4. Position Size/Money Management
5. Exit Rules (of the Strategies)
6. Periodic Review Activities

Most importantly, your plan should be a work in progress. As you refine your approach, you can add more detail to your plan over time.

Traders are typically investors as well, with core holdings that require proper asset allocation and diversification alongside their trading assets. For your core holdings, you have to determine exactly how you're going to invest your assets.

1 - Definition of Success

- Follow my Investing Plan rules
- Protect and preserve capital.
- Outperform the S&P 500 (industry standard)
- Target to make 20-30% year over year

2 - Watch List Criteria

- Identify leveraged ETFs
- Identify corresponding up/downtrend in underlying index (Dow, S&P, etc)
- Compute performance and weighted momentum score
- ETFs for 8 d MA crossover of 20 d MA - <http://www.coxintl.com/trader/ultra-xsdetect/ultra-outfile.htm>

(Utilize Dwight's Leveraged ETF strategy to generate the Watchlist momentum and trend direction.)

3 - Entry Rule

- Buy top (momentum rated) four leveraged ETF's
- Not more than 20% in each "family"
- Take initial position 2 days after 8/20 crossover

(Take 50% position on ETF 2 days after 8/20 crossover – remaining 50% one week after crossover.)

NOTE – This is **Untested** – must back test and retest periodically – markets only in trend 20% of time.

4 - Money Management (Risk)

- Start with initial portfolio value of \$25,000
- Adjust position size for a risk of >2%
- Initial stop loss set one ATR from buy

Will need to adjust to personal risk profile and Paper Trade (successfully) for some minimum trial period)

5 - Exit Rule

- Exit any position on ATR stop loss
- Reduce position if underlying index changes direction on 8/20 crossover

6- Periodic Actions

- Adjust stop loss weekly (trailing stop loss) but never lower
- Recalculate performance and momentum of portfolio and watchlist weekly
- Backtest monthly
- Maintain trading journal
- Review “common rules” checklist

The daily /weekly/monthly routines will need to be specific to each strategy...

Common Checklist (Rules) - When to trade and when not to trade. - administrative trade management record keeping, back testing, education

Use the Simple Strategy, which is a trend-following strategy. When the markets are trending, THIS is the trading strategy of choice, since a larger profit target than stop loss can be used

Take entries from major, intermediate, and the minor signals, prioritize in that order

Don't hold on to a losing position. Never, ever, under any circumstance, should one add to a losing position

Get into the habit of setting the initial stops on your trades at the time the order is entered.

Use paper-trading accounts whenever you start a new technique or strategy.

Participate in trading groups IBD, HSOG, online

Don't get greedy

Observe “Portfolio Heat”

Do you have a trading partner?

- With whom you can exchange ideas and opinions
- We all need help and someone to assist us
- We all need a sounding board
- At one point or another we all need a mentor

Develop an educational plan

No matter the source of the candidate, I am responsible for making the trade profitable. I get all of the blame, but only some of the credit

Never trade without doing Due Diligence. Never trust anyone's “hot” pick investigate it, and then trade it only if it fits your style

Plan your trades. Trade your plan. Always discipline yourself by following a pre-determined set of rules.

Remember that a bear market will give back in one month what a bull market has taken three months to build.

References

- List of leveraged ETFs traded on US / Canada Stock Exchanges (hot links to leveraged ETF providers): <http://etf.stock-encyclopedia.com/category/leveraged-etfs.html>
- Dissecting Leveraged ETF Returns:
<http://www.investopedia.com/articles/exchangetradedfunds/07/leveraged-etf.asp>
- Leveraged ETFs: A Value Destruction Trap?
<http://seekingalpha.com/article/31195-leveraged-etfs-a-value-destruction-trap>

Leveraged ETF Ticker Symbols- All the 2x and 3x Return Info You Need
<http://www.darwinsfinance.com/leveraged-etf-ticker-symbols>